

Message Text

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PAGE 01 SEOUL 04777 302301Z

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 PA-01 PRS-01 DODE-00 PM-03 /095 W

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P 300900Z JUN 75

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 1056

INFO USMISSION OECD PARIS PRIORITY

AMCONSUL HONG KONG

C O N F I D E N T I A L SEOUL 4777

USOECN PARIS FOR USDEL KOREAN CONSULTATIVE GROUP MEETING

HONG KONG FOR REGFINATT

E.O. 11652: GDS

TAGS: EFIN, IBRD, KS

SUBJECT: PROPOSED HIGHER TAX RATES

REF: A. SEOUL 4292 (NOTAL)

B. SEOUL 3738 (NOTAL)

C. SEOUL 4709 (NOTAL)

SUMMARY: PROPOSED NZW DEFENSE TAX OF 200 BILLION WON
A YEAR, WITH 50 BILLION TO BE COLLECTED IN 1975,
WILL NOT RELIEVE PROJECTED 450 BILLION OVERALL FISCAL
DEFICIT IN 1975 BECAUSE OF INCREASED DEFENSE EXPENDITURES
AND OTHER CHANGES EXPECTED IN SUPPLEMENTAL BUDGET DUE
AROUND OCTOBER. HOWEVER, APPEARS THAT 1975 DEFENSE
BURDEN MAY GROW TO AS MUCH AS 5.3 PERCENT OF GNP,
COOMPARED TO 4.3 PERCENT IN 1974. END SUMMARY.

1. GOVERNMENT OVER PAST WEEKEND PROPOSED BILL TO IMPOSE
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PAGE 02 SEOUL 04777 302301Z

THROUGH 1980 QUOTE DEFENSE TAX UNQUOTE YIELDING ESTIMATED

200 BILLION WON IN 1976 (\$1 EQUALS 484 WON).
COLLECTIONS THIS YEAR WOULD BEGIN SEPTEMBER FIRST,
YEILDING 50 BILLION WON IN ADDITIONAL 1975 REVENUE.
JUSTIFIED IN TERMS OF GREATER POST-VIETNAM NATIONAL DEFENSE
EFFORT, PROPOSED NEW TAXES INCLUDE 10-20 PERCENT SURTAXES
ON MOST INTERNAL TAXES DUE (INCLUDING PERSONAL AND
CORPORATE INCOME AS WELL AS EXCISE AND SALES TAXES) AND ALSO
FLAT 3 PERCENT ADDITIONAL TAX ON IMPORTS (EXCEPT FOR
FOREIGN-INVESTED FIRMS AND FOR IMPORTS OF RAW MATERIALS FOR
EXPORT PRODUCTS).

2. ALTHOUGH ADDITIONAL 50 BILLION IN 1975 APPARENTLY IS
NOT TO BE EARMARKED SPECIFICALLY FOR ADDITIONAL DEFENSE
EXPENDITURES, LATTER WILL PROBABLY FAR EXCEED NDW DEFENSE
TAX. SUPPLEMENTAL 1975 BUDGET DUE FOR SUBMISSION ABOUT
OCTOBER IS NOW EXPECTED TO PROVIDE 100 TO 135 BILLION WON IN
ADDITIONAL DEFENSE EXPENDITURES, OR AT HIGHER FIGURE A 38
PERCENT INCREASE OVER ORIGINAL 1975 BUDGET, I.E. FROM
353 BILLION WON TO 488 BILLION.

3. FISCAL RATIOS. IF HIGHER SUPPLEMENTARY BUDGET FIGURE
MATERIZLIZES, DEFENSE IN 1975 WOULD ACCOUNT FOR ABOUT 32
PERCENT OF ESTIMATED NEW TOTAL CENTRAL GOVERNMENT EXPENDITURES.
DEFENSE BURDEN WOULD BE ABOUT 5.3 PERCENT OF GNP IN 1975,
COMPARED TO 4.7 PERCENT UNDER ORIGINAL 1975 BUDGET, 4.3
PERCENT IN 1974, AND 3.7 PERCENT IN 1973. IF TOTAL 1975
GENERAL BUDGET EXPENDITURES INCREASE TO ESTIMATED 1,502 BILLION
WON FROM THE 1,292 BILLION ORIGINALLY BUDGETED, THIS WOULD
REPRESENT 16.2 PERCENT OF GNP COMPARED TO 14.1 PERCENT IN 1974
AND 13.2 PERCENT IN 1973. DUE MAINLY TO HIGHER THAN EXPECTED
REVENUE COLLECTIONS, TOTAL 1975 REVENUES COULD INCREASE TO
ESTIMATED 1,472 BILLION WON FROM THE 1,262 BILLION ORIGINALLY
BUDGETED, WITH FOREIGN LOAN REVENUE REMAINING AT 95 BILLION WON.

4. COMMENT: GENERAL BUDGET DEFICIT OF 30 BILLION WON WILL
APPARENTLY NOT BE AFFECTED BY DEFENSE TAX REVENUES WHICH WILL
BE INCLUDED IN SUPPLEMENTAL BUDGET THIS AUTUMN. OVERALL
FISCAL DEFICIT STILL LIKELY BE AROUND 450 BILLION WON DUE
PRIMARILY TO PROJECTED DEFICITS IN GRAINS AND FERTILIZER
TOTTALLING ABOUT 390 BILLION WON PER REF A. MINISTER OF
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PAGE 03 SEOUL 04777 302301Z

FINANCE HAS ESTIMATED DEFENSE TAX WILL RAISE
TAX BURDEN NEXT YEAR TO 17.8 PERCENT COMPARED TO 15.6
PERCENT AT PRESENT, BUT WE ARE UNABLE CONFIRM THIS
CALCULATION AT THIS TIME.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY BUDGET, TAX RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 30 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SEOUL04777
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750226-1024
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975063/aaaaacgr.tel
Line Count: 112
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 SEOUL 4292
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 28 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 MAY 2003 by ifshinsr>; APPROVED <17 NOV 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PROPOSED HIGHER TAX RATES
TAGS: EFIN, KS, IBRD
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006